

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 SS-15 SP-02 PM-04 L-03 IO-13 EB-08

MMO-01 PER-01 SIG-01 CU-02 INR-07 AID-05 AGRE-00

CIAE-00 COME-00 DODE-00 NSC-05 OMB-01 PC-01

TRSE-00 USIA-06 LAB-04 DHA-02 IGA-02 DLOS-06

SAL-01 ACDA-07 ORM-02 /109 W

-----230625Z 048694 /12

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 6600

C O N F I D E N T I A L SECTION 1 OF 2 KUALA LUMPUR 1793

E.O. 11652: GDS

TAGS: AMGT, PFOR, MY

SUBJECT: ANNUAL POLICY AND RESOURCE ASSESSMENTS - PART I

REF: STATE 038356

1. U.S. INTERESTS. THERE ARE NO MAJOR OUTSTANDING ISSUES BETWEEN THE UNITED STATES AND MALAYSIA, AND FEW POTENTIAL CONFLICTS. OUR LONG TERM INTERESTS ARE PRIMARILY ECONOMIC: ACCESS TO COMMODITIES, PARTICULARLY TIN AND RUBBER, AND OUR INTERPLAY WITH MALAYSIA AS WE WORK OUT OUR OWN WORLD-WIDE POLICY ON COMMODITIES; THE SIZEABLE AND INCREASING U.S. TRADE AND INVESTMENT IN MALAYSIA; AND, MALAYSIAN PARTICIPATION AND ITS EFFECT ON US IN THE NORTH-SOUTH DIALOGUE.

MALAYSIA IS RELATED INDIRECTLY TO OUR POLITICAL AND SECURITY INTERESTS IN EAST ASIA: THE EXISTENCE OF MALAYSIA AS A STABLE, MODERATE AND REASONABLY DEMOCRATIC NON-COMMUNIST POWER IN SOUTHEAST ASIA IS CONSISTENT WITH OUR GOAL OF A MORE ORDERLY, HUMANE AND SAFE WORLD. MALAYSIA'S LOCATION ON THE MALACCA STRAIT ALSO MAKES THE CONTINUATION OF MODERATE GOVERNMENT HERE IMPORTANT TO THE U.S.

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AND OUR ALLY, JAPAN. OUR LONG TERM INTERESTS ARE SERVED BY MALAYSIA'S SUCCESSFUL CONTAINMENT OF THE COMMUNIST INSURGENCY IN THE NORTHERN PART OF PENINSULA MALAYSIA, AND BY PEACEFUL AND COOPERATIVE TIES BETWEEN MALAYSIA AND ITS NEIGHBORS, PARTICULARLY THE OTHER ASEAN COUNTRIES.

A. OVERVIEW. DURING THE NEXT YEAR OR SO, CIRCUMSTANCES IN THE INTERNATIONAL ENVIRONMENT WILL DIRECTLY AFFECT MALAYSIAN SOCIETY AND OUR RELATIONS WITH MALAYSIA. AS A SUCCESSFUL BUT ALMOST CLASSICLY EXPORT-ORIENTED PRIMARY PRODUCER, MALAYSIA NEEDS A PROSPEROUS AND GROWING INTERNATIONAL ECONOMY. THE COUNTRY DEPENDS MAINLY ON EXPORTS OF RUBBER, PETROLEUM, TIN, PALM OIL AND TIMBER, ALTHOUGH ITS RAPIDLY EXPANDING LIGHT MANUFACTURING SECTOR IS ALSO BECOMING IMPORTANT. WHILE OTHER FACTORS, INCLUDING POLITICAL WISDOM ARE EQUALLY IMPORTANT, ECONOMIC EXPANSION IS NECESSARY LITERALLY FOR THE SURVIVAL OF THE NATION. WITHOUT RAPID ECONOMIC EXPANSION, MALAYSIA'S CENTRAL PROBLEM -- COMMUNAL CONFLICT BETWEEN MALAYS AND CHINESE -- CANNOT BE KEPT WITHIN TOLERABLE BOUNDS. THE GOM IS COMMITTED THROUGH ITS NEW ECONOMIC PLICY (NEP) TO RESTRUCTURING ITS SOCIETY IN FAVOR OF THE POLITICALLY DOMINANT, BUT ECONOMICALLY BACKWARD MALAYS. THIS MAY WORK IF THE PIE GROWS RAPIDLY, WITH THE MALAYS GETTING AN INCREASINGLY LARGER SHARE, BUT THE CHINESE SHARE MUST ALSO CONTINUE TO GROW. MALAYSIA HAS A CUSHION IN ITS HIGH LEVEL OF FINANCIAL RESERVES AND ITS EXCELLENT INTERNATIONAL CREDIT RATING, BUT PROLONGED STAGNATION COULD SPELL DISASTER. NOT SURPRISINGLY, THE MALAYSIANS WOULD LIKE TO SEE THE UNITED STATES, THEIR MOST IMPORTANT CUSTOMER, PURSUE MORE EXPANSIONARY FISCAL AND MONETARY POLICIES; THEY WOULD ALSO LIKE TO SEE CONTINUED U.S. INVESTMENT ON TERMS THEY CONSIDER POLITICALLY ACCEPTABLE. A RELATED FACTOR, MALAYSIA'S COMMUNIST INSURGENCY, CONFIDENTIAL

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IS ALSO SUBJECT TO THE INTERNATIONAL ENVIRONMENT. ECONOMIC STAGNATION, LEADING TO COMMUNAL CONFLICT, WOULD INCREASE LOCAL CHINESE SUPPORT FOR THE INSURGENCY; OUTSIDE SUPPORT, MOST LIKELY FROM THE SRV, BUT ALSO POSSIBLY FROM THE PRC, COULD CHANGE IT FROM A MANAGEABLE ANNOYANCE TO A MAJOR THREAT TO MALAYSIA'S STABILITY. AMONG THE CASUALTIES ARE LIKELY TO BE HUMAN RIGHTS.

B. OBJECTIVES, COURSES OF ACTION, AND ISSUES.

1. COMMODITIES. AS THE WORLD'S LARGEST PRODUCER OF TIN, NATURAL RUBBER AND PALM OIL, A MAJOR MALAYSIAN OBJECTIVE IS TO SECURE FAVORABLE PRICES AND MARKETS FOR THESE COMMODITIES. THE U.S. IS THE WORLD'S LARGEST CONSUMER OF TIN AND RUBBER, AND IS A MAJOR COMPETITOR IN THE WORLD'S EDIBLE OIL MARKETS; THERE IS, THEREFORE, A POSSIBILITY OF CONFLICT BETWEEN U.S. AND MALAYSIAN INTERESTS. MALAYSIA SUPPORTS THE UNCTAD RESOLUTION ON COMMODITIES AND THE CREATION OF A COMMON FUND, BUT IS ALSO WILLING TO APPROACH COMMODITY

AGREEMENTS ON A CASE-BY-CASE BASIS.

(A) TIN. WHILE WE SHOULD BE COOPERATIVE
AND FORTHCOMING WITH MALAYSIA IN THE ITC, WE SHOULD ALSO
USE THAT FORUM TO FOCUS ATTENTION ON GOM POLICIES
THAT HAVE LED TO A DECLINE OF TIN PRODUCTION: DENIAL
OF NEW MINING LEASES AND REFUSAL TO RENEW OLD ONES TO
NON-MALAYS; HEAVY EXPORT TAXATION.

(B) RUBBER. WE SHOULD CONTINUE TO PARTICIPATE
IN THE PROPOSED INTERNATIONAL NATURAL RUBBER AGREEMENT AND ATTEMPT
TO INFLUENCE THE NATURAL RUBBER PRODUCERS IN MODERATE DIRECTIONS.
THIS WILL ENABLE THE U.S. TO INDICATE ITS WILLINGNESS TO BE
FORTHCOMING WITHIN THE "NORTH-SOUTH DIALOGUE" WHILE NEGOTIATION WITH
THE MOST MODERATE OF THE G-77 COUNTRIES. THIS COULD SET A
RESPONSIBLE TONE FOR FUTURE COMMODITY AGREEMENTS. IN PARTICULAR,
BY BEING RESPONSIVE TO THE REAL ECONOMIC INTERESTS OF THE
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PRODUCERS, WE MAY BE ABLE TO PERSUADE THEM TO ESCHEW MORE
BLATANTLY POLITICAL OBJECTIVES.

(C) PALM OIL. DURING THE NEXT FEW YEARS WORLD-WIDE PALM OIL
PRODUCTION, AND ESPECIALLY IN MALAYSIA, WILL INCREASE DRAM-
ATICALLY. WHILE RECOGNIZING THE PROBLEMS THIS WILL CAUSE AMERICAN
SOY BEAN OIL PRODUCERS, WE SHOULD RESIST PROTECTIONIST PRESSURES;
THE WORLD'S LARGEST AGRICULTURAL EXPORTER HAS A VITAL STAKE
IN FREER AGRICULTURAL MARKETS.

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ACTION EA-09

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C O N F I D E N T I A L SECTION 2 OF 2 KUALA LUMPUR 1793

2. U.S.- MALAYSIA SECURITY RELATIONSHIP. IN RECOGNATION OF OUR INTEREST IN MALAYSIA'S DEFEAT OF ITS COMMUNIST INSURGENCY, WE RESPONDED TO FORMER PRIME MINISTER TUN RAZAK'S 1975 REQUEST FOR U.S. MILITARY ASSISTANCE WITH A FOREIGN MILITARY SALES (FMS) CREDIT PROGRAM AMOUNTING TO US\$17,000,000 IN FY 1976 AND US\$36,000,000 IN FY 1977. THIS MONEY HAS PRIMARILY BEEN USED TO BUY HELICOPTERS AND M-16 RIFLES. FOR SOME YEARS, WE HAVE ALSO HAD A SMALL GRANT TRAINING PROGRAM USED TO TRAIN FIFTY TO SIXTY MALAYSIAN DEFENSE SERVICES PERSONNEL IN THE UNITED STATES ANNUALLY.

WE RECOMMEND THAT THE U.S. CONTINUE TO OFFER MALAYSIA ABOUT US\$20,000,000 A YEAR IN FMS CREDIT AND THAT OUR GRANT TRAINING PROGRAM BE CONTINUED AT ITS PRESENT LEVEL OF US\$500,000.

3. POLITICAL PROBLEMS. MALAYSIAN FOREIGN POLICY IS ONE OF NONALIGNMENT AND EQUIDISTANCE FROM THE GREAT POWERS. IN RECENT YEARS THE GOM HAS SOUGHT CLOSE RELATIONS WITH HER NON-COMMUNIST NEIGHBORS BOTH BILATERALLY AND THROUGH ASEAN. IT HAS PURSUED CLOSER TIES WITH THE THIRD WORLD THROUGH THE NONALIGNED NATIONS (NAC) AND ISLAMIC CONFERENCES (8:).
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IT HAS PRESSED, BUT NOT STRIDENTLY OR VIGOROUSLY, FOR A ZONE OF PEACE, FREEDOM AND NEUTRALITY IN SOUTHEAST ASIA. OTHER TIES, BUT CLEARLY RECEDING IN IMPORTANCE, ARE TO THE COMMONWEALTH AND THE FIVE POWER DEFENSE ARRANGEMENT. MALAYSIA'S CLOSEST BILATERAL RELATIONS ARE WITH INDONESIA (WITH WHOM MALAYSIA SHARES TIES OF RELIGION AND LANGUAGE) AND WITH SINGAPORE AND THAILAND. IN PARTICULAR, RELATIONS WITH THE LATTER HAVE IMPROVED IN RECENT MONTHS AND THE GOM IS PLEASED WITH THE INCREASED COOPERATION BEING EXTENDED BY THE RTG IN ANTI-COMMUNIST OPERATIONS ALONG THE THAI-MALAYSIA BORDER.

A. INDOCHINA. THE GOM IS WORRIED ABOUT THE EMERGENCE OF THE SRV AS A MAJOR REGIONAL POWER. IT IS CONCERNED ABOUT THE STABILITY OF THAILAND, AND FEARS THE POSSIBILITY OF INCREASED SRV ASSISTANCE TO INSURGENTS IN NORTHEAST THAILAND, AS WELL AS THE POSSIBILITY THAT THE SRV MIGHT AT SOME POINT DECIDE TO SUPPORT MALAYSIAN INSURGENCY.

THE GOM WOULD WELCOME AN IMPROVEMENT IN U.S.- SRV RELATIONS, INCLUDING A U.S. PRESENCE IN HANOI, AND EVEN A VERY MODEST U.S. ASSISTANCE PROGRAM THERE, ON THE THEORY THAT INCREASED INVOLVEMENT OF THE SRV WITH THE WESTERN

WORLD WILL LESSEN ITS REVOLUTIONARY FERVOR. GOM OFFICIALS, HOWEVER, WOULD BE WORRIED BY A LARGE AMERICAN ASSISTANCE PROGRAM AIMED AT "RECONSTRUCTING" VIETNAM.

B. LAW OF THE SEA. MALAYSIA'S CHIEF CONCERN AT THE LAW OF THE SEA CONFERENCE IS TO ENSURE THAT IT IS NOT ADVERSELY AFFECTED BY THE RESULTS (E.G., ACCEPTANCE OF THE ARCHIEPELAGO THEORY COULD THREATEN FREE PASSAGE BETWEEN PENINSULAR MALAYSIA AND SARAWAK) AND TO MAXIMIZE CONTROL OVER TRAFFIC IN THE MALACCA STRAIT. ITS PARTICIPATION IN THE NAC AND GROUP OF 77 DICTATE THAT IT TAKE A SYMPATHETIC APPROACH TO THIRD WORLD INITIATIVES BUT ITS TIES TO THE INDUSTRIALIZED WEST AND ITS OWN BASIC MODERATION HAVE MEANT THAT IT HAS BEEN WILLING TO COMPROMISE IF IT IS NOT BROUGHT INTO DIRECT AND OPEN CONFLICT WITH ANY COUNTRY OR GROUP. AS A RESULT, IT WOULD APPEAR THAT THE GOM
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WILL BACK COMPROMISE PROPOSALS ON SEA BEDS ARISING FROM THE EVANSEN INTERSESSIONAL MEETINGS AND WILL ULTIMATELY AGREE TO SUBMISSION OF THE TRI-NATION TRAFFIC SEPARATION SCHEME FOR THE STRAIT TO IMCO.

C. THIRD WORLD ISSUES. IN ADDITION TO ITS STAND ON THE ISSUES ON THE NORTH-SOUTH DIALOGUE NOTED ABOVE, MALAYSIAN POSITIONS TEND TO BE MODERATE WHERE THEY DO NOT BRING HER INTO OPEN CONFLICT WITH ONE OR ANOTHER BLOC. THUS, WHEN MADE AWARE OF U.S. SENSITIVITIES TOWARD RESOLUTIONS IN THE UN ON GUAM, AMERICAN SAMOA AND PUERTO RICO, THE GOM ABSTAINED BUT WOULD NOT VOTE "NO". MALAYSIA WILL NOT, HOWEVER, FAIL TO SUPPORT INITIATIVES ON THE MIDDLE EAST TAKEN BY LEADERS OF THE ISLAMIC CONFERENCE NOR WILL THE GOM GET OUT IN FRONT ON THE TWO KOREAS BECAUSE TO DO SO WOULD BRING IT INTO DIRECT CONFLICT WITH BLOCS WHICH ARE IMPORTANT TO THE EQUIDISTANT POSTURE THE GOM SEEKS TO MAINTAIN. (ISLAMIC ISSUES ARE ALSO IMPORTANT IN TERMS OF DOMESTIC POLITICS.)

D. ZONE OF PEACE, FREEDOM AND NEUTRALITY. THE GOM ATTITUDE TOWARD THE ZONE OF PEACE, FREEDOM AND NEUTRALITY HAS BECOME MORE REALISTIC SINCE THE CONCEPT OF THE ZONE WAS ENDORSED BY THE ASEAN FOREIGN MINISTERS IN KUALA LUMPUR IN NOVEMBER 1971. MALAYSIAN OFFICIALS ARE EXTREMELY INTERESTED IN GETTING U.S. SUPPORT FOR THE ZONE, POINTING OUT THAT CHINA HAS ALREADY GIVEN ITS, ADMITTEDLY VAGUE, BLESSINGS. NOW THAT PRESIDENT CARTER HAS INDICATED HIS INTEREST IN OBTAINING AGREEMENT WITH USSR TO DENUCLEARIZE THE INDIAN OCEAN IT SHOULD BE POSSIBLE FOR THE U.S. TO INDICATE BROAD, UNSPECIFIC SUPPORT FOR THE ZONE IN SUCH A WAY THAT THE GOM IS MOLLIFIED BUT WITHOUT COMMITTING OURSELVES IN ADVANCE OF THE PUBLICATION

OF A SPECIFIC PLAN.

4. REFUGEES - A SPECIAL PROBLEM. A MAJOR OPERATIONAL
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PROBLEM OF THE USG IN MALAYSIA IS THE CONTINUING ARRIVAL
OF REFUGEES FROM INDOCHINA. THE VAST MAJORITY ARE
VIETNAMESE ARRIVING BY SMALL BOAT IN SARAWAK OR ON
THE EAST COAST OF PENINSULA MALAYSIA. INTERVIEWING,
PROCESSING AND ANSWERING CORRESPONDENCE ABOUT THESE
REFUGEES TAKES MANY MAN HOURS OF WORK AND TRAVEL.
THERE ARE OVER 1,000 VIETNAMESE REFUGEES CURRENTLY
IN REMOTE CAMPS IN MALAYSIA NOW, NOT COUNTING SOME
TWELVE TO FOURTEEN HUNDRED CAMBODIAN MUSLIMS WHO
HAVE BEEN SETTLED HERE. WE DO NOT SEE THE PROBLEM
ABATING DURING THE NEXT TWO YEARS; THUS THE EXTREME
PRESSURE ON ALL EMBASSY SECTIONS TO SUPPLY
SUPPLEMENTARY ASSISTANCE TO THE CONSULAR SECTION AT
THE EXPENSE OF THEIR NORMAL DUTIES WILL CONTINUE.
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